

Oakley City Corporation
Summit County, Utah

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2005

Oakley City Corporation
TABLE OF CONTENTS
June 30, 2005

	Beginning on <u>Page</u>
INDEPENDENT ACCOUNTANT'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	13
Government-wide Financial Statements:	15
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	18
Balance Sheet - Governmental Funds	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Net Assets - Proprietary Funds	22
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	23
Statement of Cash Flows - Proprietary Funds	24
Notes to the Financial Statements	26
REQUIRED SUPPLEMENTARY INFORMATION	39
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	42

Continued on next page

Oakley City Corporation
TABLE OF CONTENTS (continued)
June 30, 2005

	Beginning on <u>Page</u>
Continued from previous page	
OTHER REPORTS	45
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47
State Legal Compliance Report	49
Schedule of Findings	51

Ulrich & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members
of the City Council
Oakley City Corporation

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Oakley City Corporation as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Oakley City Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Oakley City Corporation as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005 on our consideration of Oakley City Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ulrich & Associates, P.C.

December 2, 2005

Members of Utah Association of CPAs / American Institute of CPAs

Charles E. Ulrich, CPA / Michael E. Ulrich, CPA

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Oakley City Corporation
Management's Discussion and Analysis
June 30, 2005

As management of Oakley City Corporation, we offer readers of the City's financial statements this narrative overview and analysis of financial activities of the City for the fiscal year ended June 30, 2005.

FINANCIAL HIGHLIGHTS

- *Total net assets increased by \$664,625.
- *Total unrestricted net assets decreased by \$110,161.
- *Total net assets for governmental activities increased by \$720,099.
- *Total governmental activities unrestricted net assets decreased by \$164,740.
- *Total net assets for business-type activities decreased by \$56,074.
- *Total business-type activities unrestricted net assets decreased by \$54,580.

BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements of the Oakley City Corporation. The basic financial statements comprise three components: (1) government wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the city's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The statement of activities is presented on two pages. The first page reports the extent to which each function or program is self-supporting through fees and intergovernmental aid. The second page identifies the general revenues of the City available to cover any remaining costs of the functions or programs.

Oakley City Corporation
Management's Discussion and Analysis
June 30, 2005

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because of the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the government fund balance sheet and the government fund statement of the revenues, expenditures, and changes in fund balances provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three major governmental funds, the general fund, a special revenue fund for the Municipal Building Authority (MBA), and a capital projects fund.

The City adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided to demonstrate legal compliance with the adopted budget for the general fund and the MBA fund.

The basic governmental fund financial statements can be found later in this report; see Table of Contents.

Proprietary funds. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses three enterprise funds to account for the operations of the water, sewer, and rodeo activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds are considered major funds of the City.

The proprietary fund financial statements can be found later in this report; see Table of Contents.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are reported later in this report; see Table of Contents.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City.

Oakley City Corporation
Management's Discussion and Analysis
June 30, 2005

FINANCIAL ANALYSIS

Oakley City Corporation's Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Current Year</u>	<u>Total Previous Year</u>
	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>		
Current and other assets	\$ 902,973	1,481,916	1,297,798	1,250,494	2,200,771	2,732,409
Net capital assets	<u>4,530,715</u>	<u>3,766,674</u>	<u>4,316,812</u>	<u>4,477,142</u>	<u>8,847,528</u>	<u>8,243,816</u>
Total assets	<u>\$5,433,688</u>	<u>5,248,589</u>	<u>5,614,610</u>	<u>5,727,636</u>	<u>11,048,299</u>	<u>10,976,225</u>
Current liabilities	\$ 197,171	652,761	221,759	233,203	418,930	885,964
Long-term liabilities	<u>2,069,390</u>	<u>2,149,400</u>	<u>1,770,743</u>	<u>1,816,250</u>	<u>3,840,133</u>	<u>3,965,650</u>
Total liabilities	<u>\$2,266,561</u>	<u>2,802,161</u>	<u>1,992,502</u>	<u>2,049,453</u>	<u>4,259,063</u>	<u>4,851,614</u>
Net assets:						
Capital assets, net of debt	\$2,461,325	1,617,274	2,546,069	2,660,892	5,007,395	4,278,166
Restricted	170,832	129,444	40,000	40,000	210,832	169,444
Unrestricted	<u>534,970</u>	<u>699,711</u>	<u>1,036,039</u>	<u>977,290</u>	<u>1,571,009</u>	<u>1,677,001</u>
Total net assets	<u>\$3,167,128</u>	<u>2,446,428</u>	<u>3,622,108</u>	<u>3,678,183</u>	<u>6,789,236</u>	<u>6,124,611</u>

As noted earlier, net assets may serve over time as a useful indicator of financial position. Total assets exceeded total liabilities at the close of the year by \$6,789,236, an increase of \$664,625 from the previous year. This change is equivalent to the net income for the year, in private sector terms.

Total unrestricted net assets at the end of the year are \$1,571,009, which represents a decrease of \$105,992 from the previous year. Unrestricted net assets are those available to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

The amount of current and other assets represent the amounts of cash and receivables on hand at the end of each year. Other liabilities are the amounts of current and other assets due, at year end, for goods and services acquired.

Changes in capital assets are the result of the difference, in the current year, of the cost of acquisition of capital assets and any depreciation charges on capital assets. Change in long-term debt is the difference in the amount of debt issued and that which has been paid during the year.

**Oakley City Corporation
Management's Discussion and Analysis
June 30, 2005**

FINANCIAL ANALYSIS

Oakley City Corporation's Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	<u>Total</u>
	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>
Program revenues:						
Charges for services	\$227,581	34,132	492,233	611,749	719,814	645,881
Operating grants	41,388	51,183	120,467	88,622	161,855	139,805
Capital grants	199,269	28,715	-	-	199,269	28,715
General revenues:						
Property taxes	93,754	106,566	35,665	39,522	129,419	146,088
Sales tax	188,145	133,332	-	-	188,145	133,332
Other taxes	15,784	-	-	-	15,784	-
Other revenues	<u>35,869</u>	<u>61,771</u>	<u>20,484</u>	<u>22,686</u>	<u>56,353</u>	<u>84,457</u>
Total revenues	<u>801,790</u>	<u>415,699</u>	<u>668,848</u>	<u>762,579</u>	<u>1,470,638</u>	<u>1,178,278</u>
Expenses:						
General government	372,064	232,794	-	-	372,064	232,794
Public safety	25,239	4,630	-	-	25,239	4,630
Highways and improvements	9,874	98,352	-	-	9,874	98,352
Parks and recreation	40,409	24,523	-	-	40,409	24,523
Interest on long-term debt	93,899	39,609	-	-	93,899	39,609
Water	-	-	189,020	199,800	189,020	199,800
Sewer	-	-	160,367	105,380	160,367	105,380
Rodeo	-	-	<u>219,062</u>	<u>180,236</u>	<u>219,062</u>	<u>180,236</u>
Total expenses	<u>541,485</u>	<u>399,907</u>	<u>568,449</u>	<u>485,415</u>	<u>1,109,933</u>	<u>885,322</u>
Excess (deficiency) before transfers	260,305	15,792	81,219	277,163	341,524	292,956
Transfers	<u>156,474</u>	<u>59,997</u>	<u>(156,474)</u>	<u>(59,997)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$416,779</u>	<u>75,789</u>	<u>(50,074)</u>	<u>217,167</u>	<u>360,705</u>	<u>292,956</u>

Total revenues increased by \$292,361, while total expenses increased by \$224,611. The total net increase for the year of \$360,705 is an increase from the previous year of \$67,749.

Governmental activities revenue of \$801,790 is an increase of \$386,091 from the previous year. This is primarily due to a park and arena donation. Governmental activities expense of \$541,485 is an increase of \$141,578 from the previous year. This resulted mainly from lease expense increase.

Business-type activities revenue of \$668,848 is a decrease of \$93,730 from the previous year. There was a decrease in total impact fee income amounting to \$147,000, while operating income consisting of charges for services and other operating income increased by \$73,933.

Business-type activities expense of \$568,449 is an increase of \$83,033 from the previous year. Operations and maintenance expenses increased by \$53,489 in the water and sewer funds combined, and rodeo production expenses increased by \$41,421 in the rodeo fund.

Oakley City Corporation
Management's Discussion and Analysis
June 30, 2005

BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

Some of the more significant changes in fund balances and fund net assets and any restrictions on those amounts are described below:

General Fund

The fund balance in the general fund of \$676,188 reflects a decrease of \$106,725 from the previous year. Reservations in the general fund at year end amount to \$170,832 for Class C roads.

Water Fund

Unrestricted net assets at the end of the year were \$477,377. This is an increase of \$123,304 from the previous year. There are no reserved balances in this fund.

Sewer Fund

Unrestricted net assets at the end of the year were \$306,537. This is a decrease of \$1,019 from the previous year. Debt service reserves at year end amount to \$40,000.

Rodeo Fund

Unrestricted net assets at the end of the year were \$252,135. This is a decrease of \$63,537 from the previous year. There are no reserved balances in this fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues for the current year, exclusive of transfers and fund balance appropriations, were originally budgeted in the amount of \$694,680. This amount was changed in the final budget to \$862,080.

Expenditures for the current year, excluding transfers, were originally budgeted in the amount of \$814,680. This amount was amended in the final budget to \$1,104,680.

Net transfers for the year were originally budgeted in the amount of \$150,000 as a transfer in. The final net transfer budget was the same.

Oakley City Corporation
Management's Discussion and Analysis
June 30, 2005

CAPITAL ASSET AND DEBT ADMINISTRATION

Oakley City Corporation's Capital Assets (net of depreciation):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	<u>Total</u>
	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Prior Year</u>
Net Capital Assets:						
Assets not depreciated:						
Land and rights	\$1,051,020	1,051,020	359,346	359,346	1,410,366	1,410,366
Work in progress	<u>3,233,758</u>	<u>2,458,904</u>	<u>-</u>	<u>-</u>	<u>3,233,758</u>	<u>2,458,904</u>
Total not being depreciated	<u>4,284,778</u>	<u>3,509,924</u>	<u>359,346</u>	<u>359,346</u>	<u>4,644,124</u>	<u>3,869,270</u>
Assets being depreciated:						
Buildings and improvements	156,178	165,050	13,795	14,952	169,973	180,002
Water system	-	-	2,139,546	2,236,984	2,139,546	2,236,984
Sewer system	-	-	1,750,864	1,826,371	1,750,864	1,826,371
Equipment	10,630	9,274	53,262	39,488	63,891	48,762
Infrastructure	<u>79,129</u>	<u>82,426</u>	<u>-</u>	<u>-</u>	<u>79,129</u>	<u>82,426</u>
Total being depreciated	<u>245,937</u>	<u>256,749</u>	<u>3,957,466</u>	<u>4,117,796</u>	<u>4,203,404</u>	<u>4,374,545</u>
Total net capital assets	<u>\$4,530,715</u>	<u>3,766,674</u>	<u>4,316,812</u>	<u>4,477,142</u>	<u>8,847,528</u>	<u>8,243,816</u>

Most differences between the current year balance and the previous year balance are decreases which have to do with the charge for depreciation made for the year. However, one significant change is in the work in progress, which increased during the year by \$774,854. This the amount expended during the current year on the recreation complex. The total expended on this project through the end of the year was \$3,233,758. This project is expected to be completed early in the next year.

Additional information regarding capital assets may be found in the notes to financial statements.

Oakley City Corporation
Management's Discussion and Analysis
June 30, 2005

Oakley City Corporation's Outstanding Debt – Revenue Bonds

	<u>Current Year</u>	<u>Previous Year</u>
Governmental activities:		
Lease Revenue Bonds:		
MBA Lease 1997	\$ 628,390	649,400
MBA Lease 2003	<u>1,441,000</u>	<u>1,500,000</u>
Total governmental activities long-term debt	<u>2,069,390</u>	<u>2,149,400</u>
Business-type activities:		
General Obligation Bonds:		
Water bond 1996A	60,000	600,000
Water bond 1996B	740,000	740,000
Water refunding 2004	561,000	-
Less deferred refunding charge	(32,757)	-
Sewer Revenue Bonds:		
Sewer bond 1991	82,500	96,250
Sewer bond 2004	<u>360,000</u>	<u>380,000</u>
Total business-type activities long-term debt	<u>1,770,743</u>	<u>1,816,250</u>
Total long-term obligations	<u>\$3,840,133</u>	<u>3,965,650</u>

Principal was repaid on governmental bonds in the amount of \$80,010. Principal was repaid on the business-type bonds in the amount of \$25,000 in addition to issuing debt in order to defease \$515,000 of general obligation debt.

Additional information regarding long-term liabilities, including the details of the advance refunding of general obligation debt may be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No significant economic changes that would affect the City are expected for the next year. Budgets have been based on essentially the same factors as the current year being reported.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Oakley City's financial condition for all those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to: City Recorder, 960 West Center Street, Oakley, Utah 84055.

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BASIC FINANCIAL STATEMENTS

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Oakley City Corporation
STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 784,893	1,158,363	1,943,257
Receivables:			
Property taxes	79,178	28,671	107,849
Due from other governments	33,420	-	33,420
Customer accounts	-	54,352	54,352
Other receivables	<u>5,482</u>	<u>-</u>	<u>5,482</u>
Total current assets	<u>902,973</u>	<u>1,241,387</u>	<u>2,144,360</u>
Non-current assets:			
Restricted cash and cash equivalents	-	40,000	40,000
Deferred charges, net of amortization	-	16,411	16,411
Capital assets:			
Land, water rights, and construction in progress	4,284,778	359,346	4,644,124
Other capital assets, net of depreciation	<u>245,937</u>	<u>3,957,466</u>	<u>4,203,404</u>
Total non-current assets	<u>4,530,715</u>	<u>4,373,224</u>	<u>8,903,939</u>
TOTAL ASSETS	<u>\$5,433,688</u>	<u>5,614,610</u>	<u>11,048,299</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	87,942	8,882	96,824
Accrued interest payable	35,293	8,050	43,343
Unearned income	73,935	204,828	278,763
Revenue bonds, current portion	82,270	33,750	116,020
General obligation bonds, current portion	<u>-</u>	<u>30,768</u>	<u>30,768</u>
Total current liabilities	<u>279,441</u>	<u>286,277</u>	<u>565,718</u>
Non-current liabilities:			
Revenue bonds, long-term	1,987,120	408,750	2,395,870
General obligation bonds, long-term (net of unamortized deferred amounts)	<u>-</u>	<u>1,297,475</u>	<u>1,293,306</u>
Total non-current liabilities	<u>1,987,120</u>	<u>1,706,225</u>	<u>3,693,345</u>
TOTAL LIABILITIES	<u>2,266,561</u>	<u>1,992,502</u>	<u>4,259,063</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,461,325	2,546,069	5,007,395
Restricted for:			
Debt service requirements	-	40,000	40,000
Class C roads	170,832	-	170,832
Unrestricted	<u>534,970</u>	<u>1,036,039</u>	<u>1,571,009</u>
TOTAL NET ASSETS	<u>3,167,128</u>	<u>3,622,108</u>	<u>6,789,236</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$5,433,688</u>	<u>5,614,610</u>	<u>11,048,299</u>

The notes to the financial statements are an integral part of this statement.

Oakley City Corporation
Statement of Activities
For the Year Ended June 30, 2005

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	Net (Expense) Revenue (To Next Page)
<u>FUNCTIONS/PROGRAMS:</u>					
Primary government:					
Governmental activities:					
General government:					
Administration	\$ 126,011	60,885	-	-	(65,126)
Planning and zoning	18,542	-	-	-	(18,542)
Buildings and grounds	227,510	166,696	-	-	(60,814)
Public safety:					
Building inspection	25,239	-	-	-	(25,239)
Highways, public improvements:					
Street maintenance	9,874	-	41,388	-	31,514
Parks and recreation:					
Parks	40,409	-	-	199,269	158,859
Interest on long-term debt	<u>93,899</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(93,899)</u>
Total governmental activities	<u>541,485</u>	<u>227,581</u>	<u>41,388</u>	<u>199,269</u>	<u>(73,247)</u>
Business-type activities:					
Water	189,020	186,575	-	-	(2,445)
Sewer	160,367	126,888	-	-	(33,479)
Rodeo	<u>219,062</u>	<u>180,823</u>	<u>120,467</u>	<u>-</u>	<u>82,228</u>
Total business-type activities	<u>568,449</u>	<u>494,286</u>	<u>120,467</u>	<u>-</u>	<u>46,304</u>
Total primary government	<u>\$1,109,933</u>	<u>721,867</u>	<u>161,855</u>	<u>199,269</u>	<u>(26,943)</u>

(Continued on next page)

The notes to the financial statements are an integral part of this statement.

Oakley City Corporation
Statement of Activities (continued)
For the Year Ended June 30, 2005

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
CHANGE IN NET ASSETS:			
Net (expense) revenue (from previous page)	\$ <u>(73,247)</u>	<u>46,304</u>	<u>(26,943)</u>
General revenues:			
Property taxes	93,754	35,665	129,419
Sales taxes	188,145	-	188,145
Telecommunications tax	15,784	-	15,784
Unrestricted investment earnings	20,764	18,431	39,195
Miscellaneous revenue	<u>15,105</u>	<u>-</u>	<u>15,105</u>
Total general revenue	333,552	54,096	387,647
Transfers	<u>156,474</u>	<u>(156,474)</u>	<u>-</u>
Total general revenues and transfers	<u>490,026</u>	<u>(102,378)</u>	<u>387,647</u>
Change in net assets	416,779	(56,074)	360,705
Net assets - beginning	<u>2,750,349</u>	<u>3,678,183</u>	<u>6,428,531</u>
Net assets - ending	<u>\$3,167,128</u>	<u>3,622,108</u>	<u>6,789,236</u>

The notes to the financial statements are an integral part of this statement.

Oakley City Corporation
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2005

	General Fund	Special Revenue (MBA)	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$719,985	1,671	63,237	784,893
Receivables, net of allowances:				
Property taxes	79,178	-	-	79,178
Due from other governments	33,420	-	-	33,420
Other receivables	<u>5,482</u>	<u>-</u>	<u>-</u>	<u>5,482</u>
TOTAL ASSETS	<u>\$838,065</u>	<u>1,671</u>	<u>63,237</u>	<u>902,973</u>
LIABILITIES				
Accounts payable	\$ 87,942	-	-	87,942
Deferred revenues	<u>73,935</u>	<u>-</u>	<u>-</u>	<u>73,935</u>
TOTAL LIABILITIES	<u>161,877</u>	<u>-</u>	<u>-</u>	<u>161,877</u>
FUND BALANCES:				
Reserved for:				
Class C Roads	170,832	-	-	170,832
Unreserved, reported in:				
Special revenue funds	-	1,671	-	1,671
Capital project funds	-	-	63,237	63,237
General fund:				
Designated - recreation complex	502,191	-	-	502,191
Undesignated	<u>3,165</u>	<u>-</u>	<u>-</u>	<u>3,165</u>
TOTAL FUND BALANCES	<u>678,188</u>	<u>1,671</u>	<u>63,237</u>	<u>741,096</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$838,065</u>	<u>1,671</u>	<u>63,237</u>	<u>902,973</u>

The notes to the financial statements are an integral part of this statement.

Oakley City Corporation
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
 For the Year Ended June 30, 2005

	General Fund	Special Revenue (MBA)	Capital Projects	Total Governmental Funds
REVENUES:				
Taxes:				
Property	\$ 93,754	-	-	93,754
Sales	188,145	-	-	188,145
Franchise	15,784	-	-	15,784
Licenses and permits	49,641	-	-	49,641
Intergovernmental revenues	41,965	-	-	41,965
Charges for services	323,040	-	-	323,040
Interest	22,303	20	770	23,093
Miscellaneous revenue	<u>213,797</u>	<u>156,492</u>	-	<u>370,289</u>
Total Revenues	<u>948,429</u>	<u>156,512</u>	<u>770</u>	<u>1,105,710</u>
EXPENDITURES:				
Current:				
General government	367,594	-	-	367,594
Public safety	20,609	-	-	20,609
Highways and public improvements	6,577	-	-	6,577
Parks, recreation and public property	39,051	-	-	39,051
Capital outlay:				
General government	2,942	-	-	2,942
Parks and recreation	774,854	-	-	774,854
Debt service:				
Principal	-	80,010	-	80,010
Interest	-	<u>76,464</u>	-	<u>76,464</u>
Total Expenditures	<u>1,211,628</u>	<u>156,474</u>	<u>-</u>	<u>1,368,102</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>(263,199)</u>	<u>38</u>	<u>770</u>	<u>(262,392)</u>
Other Financing Sources and (Uses):				
Transfers in	156,474	-	-	156,474
Transfers (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources and (Uses)	<u>156,474</u>	<u>-</u>	<u>-</u>	<u>156,474</u>
Net Change in Fund Balances	(106,725)	38	770	(105,918)
Fund balances - Beginning of Year	<u>782,913</u>	<u>1,633</u>	<u>62,467</u>	<u>847,013</u>
Fund Balances - End of Year	<u>\$ 676,188</u>	<u>1,671</u>	<u>63,237</u>	<u>741,096</u>

The notes to the financial statements are an integral part of this statement.

Oakley City Corporation
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**
June 30, 2005

Total Fund Balances for Governmental Funds **\$ 741,096**

Total net assets reported for governmental activities in the statement
is different because:

Capital assets used in governmental funds are not financial resources and
therefore are not reported in the funds.

Capital assets, at cost	4,829,295
Less accumulated depreciation	<u>(298,579)</u>
Net capital assets	<u>4,530,715</u>

Long-term debt, for funds other than enterprise funds, are recorded in
the government-wide statements but not in the fund statements.

General long-term debt	(2,069,390)
Interest accrued but not yet paid on general long-term debt	<u>(35,293)</u>
Total long-term liabilities	<u>(2,104,683)</u>

Total Net Assets of Governmental Activities **\$ 3,167,128**

The notes to the financial statements are an integral part of this statement.

Oakley City Corporation
**RCONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**
June 30, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ (105,918)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with a material cost are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expenses.

Capital outlays	777,796
Depreciation expense	<u>(13,754)</u>
Net	<u>764,042</u>

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Long-term debt principal repayments	<u>80,010</u>
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Accrued interest for long-term debt is not reported as an expenditure for the current period while it is recorded in the statement of activities.

(Increase) or decrease in accrued interest from previous period	<u>(17,435)</u>
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Long-term assets applicable to the City's governmental funds are not available to pay for current expenditures and are deferred in the governmental funds,

Long-term contract receivable - Maple Ridge Annexation	<u>(303,920)</u>
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Change in Net Assets of Governmental Activities **\$ 416,779**

The notes to the financial statements are an integral part of this statement.

Oakley City Corporation
STATEMENT OF NET ASSETS - PROPRIETARY FUND
June 30, 2005

	Water Fund	Sewer Fund	Rodeo Fund	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 409,417	291,984	456,962	1,158,363
Receivables:				
Customer accounts	37,210	17,142	-	54,352
Property taxes	<u>28,671</u>	<u>-</u>	<u>-</u>	<u>28,671</u>
Total current assets	<u>475,298</u>	<u>309,126</u>	<u>456,962</u>	<u>1,241,387</u>
Non-current assets:				
Restricted cash and cash equivalents	-	40,000	-	40,000
Deferred charges	16,411	-	-	16,411
Capital assets:				
Land and rights of way	6,295	59,040	27,260	92,595
Water shares	266,751	-	-	266,751
Buildings	-	-	18,881	18,881
Improvements other than buildings	3,102,478	2,265,243	99,974	5,467,695
Machinery and equipment	45,809	16,150	57,252	119,211
Less accumulated depreciation	<u>(973,983)</u>	<u>(515,621)</u>	<u>(158,718)</u>	<u>(1,648,321)</u>
Total non-current assets	<u>2,463,762</u>	<u>1,864,812</u>	<u>44,650</u>	<u>4,373,224</u>
Total assets	<u>\$2,939,060</u>	<u>2,173,939</u>	<u>501,612</u>	<u>5,614,610</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 6,293	2,589	-	8,882
Accrued interest payable	8,050	-	-	8,050
Unearned income	-	-	204,828	204,828
Revenue bonds, current portion	-	33,750	-	33,750
General obligation bonds, current portion	<u>37,000</u>	<u>-</u>	<u>-</u>	<u>37,000</u>
Total current liabilities	<u>51,343</u>	<u>36,339</u>	<u>204,828</u>	<u>292,509</u>
Non-current liabilities:				
Revenue bonds, long-term	-	408,750	-	408,750
General obligation bonds, long-term (net of unamortized deferred amounts)	<u>1,291,243</u>	<u>-</u>	<u>-</u>	<u>1,291,243</u>
Total non-current liabilities	<u>1,291,243</u>	<u>408,750</u>	<u>-</u>	<u>1,699,993</u>
Total liabilities	<u>1,342,586</u>	<u>445,089</u>	<u>204,828</u>	<u>1,992,502</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,119,107	1,382,312	44,650	2,546,069
Restricted for bond retirement	-	40,000	-	40,000
Unrestricted	<u>477,367</u>	<u>306,537</u>	<u>252,535</u>	<u>1,036,039</u>
Total net assets	<u>1,596,474</u>	<u>1,728,850</u>	<u>296,784</u>	<u>3,622,108</u>
Total liabilities and net assets	<u>\$2,939,060</u>	<u>2,173,939</u>	<u>501,612</u>	<u>5,614,610</u>

The notes to the financial statements are an integral part of this statement.

Oakley City Corporation
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
June 30, 2005

	Water Fund	Sewer Fund	Rodeo Fund	Total
OPERATING INCOME:				
Charges for services	\$ 150,506	114,888	178,839	444,233
Other operating income	<u>69</u>	<u>-</u>	<u>117,045</u>	<u>117,114</u>
Total operating income	<u>150,575</u>	<u>114,888</u>	<u>295,884</u>	<u>561,347</u>
OPERATING EXPENSE:				
Operations and maintenance	52,290	83,439	-	135,730
Rodeo production expense	-	-	173,925	173,925
Celebration expense	-	-	21,631	21,631
Administrative and general	9,907	179	18,188	28,275
Depreciation expense	<u>107,468</u>	<u>76,749</u>	<u>5,317</u>	<u>189,534</u>
Total operating expense	<u>169,666</u>	<u>160,367</u>	<u>219,062</u>	<u>549,095</u>
Net operating income (loss)	<u>(19,091)</u>	<u>(45,479)</u>	<u>76,822</u>	<u>12,252</u>
Non-operating income (expense):				
Operating grants received	-	-	5,406	5,406
Property taxes	35,665	-	-	35,665
Impact fees	36,000	12,000	-	48,000
Interest income	5,478	5,611	7,342	18,431
Interest on long-term debt	<u>(19,354)</u>	<u>-</u>	<u>-</u>	<u>(19,354)</u>
Total non-operating income (expense)	<u>57,789</u>	<u>17,611</u>	<u>12,748</u>	<u>88,148</u>
Income (loss) before contributions and transfers	<u>38,697</u>	<u>(27,868)</u>	<u>89,570</u>	<u>100,400</u>
Transfers	<u>-</u>	<u>-</u>	<u>(156,474)</u>	<u>(156,474)</u>
Change in net assets	<u>38,697</u>	<u>(27,868)</u>	<u>(66,904)</u>	<u>(56,074)</u>
Net assets, beginning	<u>1,557,777</u>	<u>1,756,718</u>	<u>363,688</u>	<u>3,678,183</u>
Net assets, ending	<u>\$1,596,474</u>	<u>1,728,850</u>	<u>296,784</u>	<u>3,622,108</u>

The notes to the financial statements are an integral part of this statement.

Oakley City Corporation
STATEMENT OF CASH FLOWS
For the year ending June 30, 2005

	<u>Water Fund</u>	<u>Sewer fund</u>	<u>Rodeo Fund</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from customers - service	\$136,154	114,323	310,979	561,456
Cash paid to suppliers	(36,323)	(60,686)	(208,870)	(305,879)
Cash paid to employees	(19,582)	(20,343)	(4,874)	(44,800)
Net cash provided (used) in operating activities	<u>80,249</u>	<u>33,294</u>	<u>97,234</u>	<u>210,777</u>
Cash flows from noncapital financing activities:				
Property tax received	30,994	-	-	30,994
Net interfund activity	51,695	15,632	(181,956)	(114,629)
Cash received from operating grants	-	-	5,406	5,406
Net cash provided (used) in noncapital financing activities	<u>82,688</u>	<u>15,632</u>	<u>(176,550)</u>	<u>(78,230)</u>
Cash flows from capital and related financing activities:				
Cash from impact fees	36,000	12,000	-	48,000
Cash payments for capital assets	(11,104)	(16,150)	(1,950)	(29,204)
Cash payments for debt issue costs	(18,500)	-	-	(18,500)
Cash payments for long-term debt	(15,926)	(33,750)	-	(49,676)
Cash payments for long-term debt interest	(23,036)	-	-	(23,036)
Net cash provided (used) in capital and related financing activities	<u>(32,566)</u>	<u>(37,900)</u>	<u>(1,950)</u>	<u>(72,416)</u>
Cash flows from investing activities:				
Cash received from interest earned	5,478	5,611	7,342	18,431
Net cash provided (used) in investing activities	<u>5,478</u>	<u>5,611</u>	<u>7,342</u>	<u>18,431</u>
Net increase (decrease) in cash	135,849	16,637	(73,923)	785,863
Cash balance, beginning	<u>273,568</u>	<u>315,347</u>	<u>530,886</u>	<u>1,119,801</u>
Cash balance, ending	<u>409,417</u>	<u>331,984</u>	<u>456,962</u>	<u>1,198,363</u>
Cash reported on the balance sheet:				
Cash and cash equivalents	409,417	291,984	456,962	1,088,663
Non-current restricted cash	-	40,000	-	40,000
Total cash and cash equivalents	<u>\$409,417</u>	<u>331,984</u>	<u>456,962</u>	<u>1,198,363</u>

Continued on next page

The notes to the financial statements are an integral part of this statement.

Oakley City Corporation
STATEMENT OF CASH FLOWS, continued
For the year ended June 30, 2005

**Reconciliation of Operating Income
to Net Cash Provided from Operating Activity:**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Rodeo Fund</u>	<u>Total</u>
Net operating income (expense)	\$ (19,091)	(45,479)	76,822	12,252
Adjustments to reconcile operating income or (loss) to net cash provided (used) in operating activities:				
Depreciation and amortization	107,468	76,749	5,317	189,534
Changes in assets and liabilities:				
(Increase) decrease in receivables	(14,421)	(565)	-	(14,985)
(Increase) decrease in inventory	-	-	-	-
(Increase) decrease in prepayments	-	-	-	-
Increase (decrease) in payables	6,293	2,589	-	8,882
Increase (decrease) in deferred income	<u>-</u>	<u>-</u>	<u>15,095</u>	<u>15,095</u>
Net cash provided in operating activity	<u>\$80,249</u>	<u>33,294</u>	<u>97,234</u>	<u>210,777</u>

The notes to the financial statements are an integral part of this statement.

Oakley City Corporation
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting entity

Oakley City Corporation, (the City), a municipal corporation, founded originally in 1868, located in Summit County, Utah, operates under a Mayor-Council form of government. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

The City has no component units and is not a component unit of another entity.

1-B. Government-wide and fund financial statements

Government-wide Financial Statements

The government-wide financial statements, consisting of the statement of net assets and the statement of changes in net assets report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated. All expenses are included in the applicable function. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privilege provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, if any, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statement.

Oakley City Corporation
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1-C. Measurement focus, basis of accounting and financial statement presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments or payments to the general fund by other funds for providing administrative and billing services for such funds. Reimbursements are reported as reductions to expenses. Proprietary and any fiduciary fund financial statements are also reported using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when the grantor eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments, if any, receivable within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating income and expense reported in proprietary fund financial statements include those revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services, including administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Oakley City Corporation
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

**1-C. Measurement focus, basis of accounting, and financial statement presentation
(continued)**

Policy regarding use of restricted resources

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. Restricted assets and liabilities payable from restricted assets current in nature are reported with current assets and current liabilities. *Restricted assets, non-current* reports assets restricted for acquisition or construction of non-current assets, or are restricted for liquidation of long-term debt.

1-D. Fund types and major funds

Governmental funds

The City reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* is used to account for specific revenues that are legally restricted for particular purposes. The City utilizes a special revenue fund to account for the activities of the Municipal Building Authority.

A *capital project fund* account is used to account for financial resources used in the acquisition and construction of major capital assets.

Proprietary funds

The City reports the following major proprietary funds:

The *water fund* is used to account for the activities of the culinary water distribution system.

The *sewer fund* is used to account for the operations of the sewer system.

The *rodeo fund* is used to account for the operations of the City's annual rodeo activity.

1-E. Assets, Liabilities, and Net Assets or Equity

1-E-1. Deposit and Investments

Investments are reported at fair value. Deposits are reported at cost, which approximates fair value. Investments of the City are accounts at the Utah Public Treasurers Investments Fund. Additional information is contained in Note 2.

Oakley City Corporation
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-2. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

1-E-3. Receivables and Payables

Accounts receivable other than property taxes and intergovernmental receivables are from customers primarily for utility services. Property tax and intergovernmental receivables are considered collectible. Customer accounts are considered collectible. No allowance accounts are maintained.

During the course of operations, there may be transactions occur between funds that are representative of lending/borrowing arrangements outstanding at year-end. These are reported as either *due to* or *due from other funds*.

Property taxes are assessed and collected for the City by Summit County and remitted to the City shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30. All dates are in the year of levy.

1-E-4. Restricted Assets

In accordance with certain revenue bond covenants, resources may be required to be set aside for the repayment of such bonds, and, on occasion, for the repair and maintenance of the assets acquired with the bond proceeds. These resources are classified as restricted assets on the balance sheet because of their limited use. Most capital grant agreements mandate that grant proceeds be spent only on capital assets. Unspent resources of this nature are also classified as restricted. The limited use resources described above involve a reported restriction of both cash and net assets.

Unspent proceeds of bonds issued to finance capital assets are also reported as restricted cash.

1-E-5. Inventories and Prepaid items

Inventories in governmental funds are not reported. These consist of immaterial amounts of expendable supplies for consumption. Such supplies are acquired as needed. Proprietary fund inventories, where material, are stated at the lower of cost or market, using the first-in, first-out basis.

Prepaid items record payments to vendors that benefit future reporting and are reported on the consumption basis. Both inventories and prepayments are similarly reported in government-wide and fund financial statements.

Oakley City Corporation
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-6. Capital Assets

Capital assets includes property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual significant cost and an estimated useful life in excess of two years. Such assets are recorded at historical cost or at estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure is depreciated.

The cost of normal maintenance and repairs that does not add to the value of an asset or materially extend the assets' life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Upon retirement or disposition of capital assets, the cost and related accumulated depreciation are removed from the respective accounts. Depreciation of capital assets is computed using the straight-line method over their estimated useful lives.

Property, plant, and equipment of the primary government, as well as the component units if any, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	30-40
Improvements	15
Water system	30
Sewer system	30
Infrastructure	25
Vehicles and equipment	5-10

1-E-7. Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are deferred and amortized over the terms of the respective bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Significant or material bond issuance costs are reported as deferred charges.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Oakley City Corporation
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-8. Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. The General Fund reserve for restricted purposes is for unexpended Class C road allotments.

1-E-9. Prior period reclassification

Governmental activities net assets reported in the prior period of \$2,822,345 have been reduced by \$72,000 which was the property tax levied for the year 2004 to be collected at the end of 2004. In accordance with GASB Statement No. 33, this not current year revenue because it is not both measurable and available (collectible within 60 days of reporting year end) and therefore should be reported as a receivable and as deferred revenue at June 30, 2004.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary data

Annual budgets are prepared and adopted by ordinance by total for each department, in accordance with State law, by the Mayor and City Council on or before June 22 for the following fiscal year beginning July 1. Estimated revenues and appropriations may be increased or decreased by resolution of the City Council at any time during the year. A public hearing must be held prior to any proposed increase in a fund's appropriations. Budgets include activities in the General Fund. The level of the City's budgetary control (the level at which the City's expenditures cannot legally exceed appropriations) is established at the department level. Each department head is responsible for operating within the budget for their department. All annual budgets lapse at fiscal year end.

Utah State law prohibits the appropriation of unreserved General Fund balance to an amount less than 5% of the General Fund revenues. The 5% reserve that cannot be budgeted is used to provide working capital until tax revenue is received, to meet emergency expenditures, and to cover unanticipated deficits. Any unreserved General Fund balance greater than 18% of the next year's budgeted revenues must be appropriated within the following two years.

Once adopted, the budget may be amended by the City Council without hearing provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance. A public hearing must be held if the budgeted expenditures will exceed budgeted revenues and any fund balance which is available for budgeting. With the consent of the Mayor, department heads may reallocate unexpended appropriated balances from one expenditure account to another within that department during the budget year. Budgets for the General Fund are prepared on the modified accrual basis of accounting. Encumbrances are not used.

2-B. Deficit fund net assets

None of the City's funds have deficit balances.

Oakley City Corporation
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 3 - DETAILED NOTES

3-A. Deposits and investments

Cash and investments as of June 30, 2005 consist of the following:

	<u>Fair Value</u>
Cash on hand	\$ 9,450
Demand deposits - checking	642,315
Savings	34,648
Investments - PTIF	1,296,843
Total cash and investments	<u>\$1,983,257</u>

Cash and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

Cash and cash equivalents (current)	\$1,943,257
Restricted cash and cash equivalents (non-current)	<u>40,000</u>
Total cash and cash equivalents	<u>\$1,983,257</u>

Cash equivalents and investments are carried at fair value in accordance with GASB Statement No. 31.

The Utah Money Management Act (UMMA) establishes specific requirements regarding deposits of public funds by public treasurers. UMMA requires that city funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by the Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares. The City maintains monies not immediately needed for expenditure in PTIF accounts.

Oakley City Corporation
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

3-A. Deposits and investments (continued)

Deposit and Investment Risk

The City maintains no investment policy containing any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk other than that imposed by UMMA. The City's compliance with the provisions of UMMA addresses each of these risks.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. All deposits and investments of the City are available immediately.

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. All of the City's savings deposits and \$427,503 of its demand deposits are covered by FDIC insurance, while \$214,812 of its demand deposits is uninsured.

Custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. This risk is addressed through the policy of investing excess monies only in PTIF.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

3-B. Receivables

Accounts not expected to be collected within one year, if significant, are captioned as non-current receivables. Receivables as of June 30, 2005 for the City's individual funds are as follows:

	<u>General</u>	<u>Water</u>	<u>Sewer</u>	<u>Rodeo</u>	<u>Total</u>
Receivables:					
Property taxes - current	\$ 68,692	-	-	-	68,692
Property taxes - deferred	10,486	28,671	-	-	39,157
Intergovernmental	33,420	-	-	-	33,420
Customer accounts	-	37,210	17,142	-	54,352
Other receivables	<u>5,482</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,482</u>
Total receivables	<u>\$118,080</u>	<u>65,881</u>	<u>17,142</u>	<u>-</u>	<u>201,103</u>

Oakley City Corporation
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

3-C. Capital Assets

Capital asset activity for the governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land and rights	\$1,051,020	-	-	1,051,020
Construction in progress	<u>2,458,904</u>	<u>774,854</u>	-	<u>3,233,758</u>
Total capital assets, not being depreciated	<u>3,509,924</u>	<u>774,854</u>	-	<u>4,284,778</u>
Capital assets, being depreciated				
Buildings	265,614	-	-	265,614
Improvements other than buildings	170,902	-	-	170,902
Machinery and equipment	22,632	2,942	-	25,574
Infrastructure	<u>82,426</u>	-	-	<u>82,426</u>
Total capital assets, being depreciated	<u>541,574</u>	<u>2,942</u>	-	<u>544,516</u>
Less accumulated depreciation for:				
Buildings	150,102	4,630	-	154,731
Improvements other than buildings	121,364	4,242	-	125,606
Machinery and equipment	13,358	1,586	-	14,945
Infrastructure	-	<u>3,297</u>	-	<u>3,297</u>
Total accumulated depreciation	<u>284,825</u>	<u>13,754</u>	-	<u>298,579</u>
Total capital assets being depreciated, net	<u>256,749</u>	<u>(10,812)</u>	-	<u>245,937</u>
Governmental activities capital assets, net	<u>\$3,766,674</u>	<u>764,042</u>	-	<u>4,530,715</u>

Depreciation expense was charged to functions/programs of the primary government governmental activities as follows:

Governmental Activities:	
General government	\$ 4,469
Public safety	4,630
Highways and public improvements	3,297
Parks, recreation and public property	<u>1,359</u>
Total	<u>\$13,754</u>

Oakley City Corporation
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

3-C. Capital assets, continued

Capital asset activity for business-type activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 92,595	-	-	92,595
Water shares	266,751	-	-	266,751
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>359,346</u>	<u>-</u>	<u>-</u>	<u>359,346</u>
Capital assets, being depreciated:				
Buildings	18,881	-	-	18,881
Improvements other than buildings	99,974	-	-	99,974
Water system	3,096,624	5,854	-	3,102,478
Sewer system	2,265,243	-	-	2,265,243
Machinery and equipment	<u>95,861</u>	<u>23,350</u>	-	<u>119,211</u>
Total capital assets being depreciated	<u>5,576,583</u>	<u>29,204</u>	<u>-</u>	<u>5,605,788</u>
Less accumulated depreciation for:				
Buildings	7,014	472	-	7,486
Improvements other than buildings	96,890	685	-	97,575
Water system	859,639	103,293	-	962,932
Sewer system	438,872	75,507	-	514,379
Machinery and equipment	<u>56,373</u>	<u>9,577</u>	-	<u>65,949</u>
Total accumulated depreciation	<u>1,458,787</u>	<u>189,534</u>	<u>-</u>	<u>1,648,321</u>
Total capital assets being depreciated, net	<u>4,117,796</u>	<u>(160,330)</u>	<u>-</u>	<u>3,957,467</u>
Business-type activities capital assets, net	<u>\$4,477,142</u>	<u>(160,330)</u>	<u>-</u>	<u>4,316,813</u>

Depreciation expense was charged to functions/programs of the primary government business-type activities as follows:

Business-Type Activities:	
Water	\$107,468
Sewer	76,749
Rodeo	<u>5,317</u>
Total	<u>\$189,534</u>

Oakley City Corporation
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

3-E. Long-term Debt

Changes in general obligation long-term liabilities are as follows:

	<u>Original Principal</u>	<u>% Rate</u>	<u>06/30/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/2005</u>	<u>Due Within One Year</u>
General obligation bonds:							
Business-type activities:							
Water fund:							
G O Water 1996A	\$685,000	4.00	\$ 600,000	-	540,000	60,000	30,000
G O Water 1996B	740,000	0.00	740,000	-	-	740,000	-
G O Water Refunding 2004	561,000	3.60	-	561,000	-	561,000	7,000
Less deferred refunding charge	(36,926)	0.00	-	(36,926)	(4,169)	(32,757)	-
Water fund total			<u>1,340,000</u>	<u>524,074</u>	<u>535,831</u>	<u>1,328,243</u>	<u>37,000</u>
Total general obligation long-term liabilities			<u>\$1,340,000</u>	<u>524,074</u>	<u>535,831</u>	<u>1,328,243</u>	<u>37,000</u>

The City issued \$561,000 of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$515,000 of the G.O. Water 1996A general obligation bonds. This \$515,000 reduction, together with the regular repayment of \$25,000, is included in the \$540,000 amount of reduction reported above. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. The remaining amount of the G.O. Water 1996A issue of \$60,000, which was not defeased, is due in two equal amounts during the next two years. The reacquisition price exceeded the net carrying amount of the old debt by \$36,926. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same life as the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next ten years by \$77,814 and resulted in an economic gain of \$52,913.

The annual requirements to amortize general obligation debt outstanding as of June 30, 2005 are as follows (interest amounts include the amortization of the reacquisition price in excess of the carrying amount of the old debt):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 37,000	23,243	60,243
2007	38,000	21,392	59,392
2008	42,000	19,807	61,807
2009	47,000	18,402	65,402
2010	51,000	16,772	67,772
2011-2015	323,000	51,080	374,080
2016-2020	575,000	1,722	576,722
2021-2025	<u>248,000</u>	<u>0</u>	<u>248,000</u>
Total	<u>\$1,361,000</u>	<u>152,416</u>	<u>1,513,416</u>

Oakley City Corporation
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

3-E. Long-term Debt (continued)

Changes in revenue backed long-term obligations are as follows:

	<u>Original Principal</u>	<u>% Rate</u>	<u>06/30/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/2005</u>	<u>Due Within One Year</u>
Governmental Activities:							
General revenue bonds:							
MBA Lease Revenue 1997	\$ 766,680	6.00	\$ 649,400	-	21,010	628,390	22,270
MBA Lease Revenue 2003	1,500,000	2.50	<u>1,500,000</u>	-	<u>59,000</u>	<u>1,441,000</u>	<u>60,000</u>
Total governmental activity long-term liabilities			<u>2,149,400</u>	<u>-</u>	<u>80,010</u>	<u>2,069,390</u>	<u>72,270</u>
Business-type activities:							
Sewer revenue bonds:							
Sewer Revenue DWQ 1991	275,000	0.00	96,250	-	13,750	82,500	13,750
Sewer Revenue DWQ 2004	400,000	0.00	<u>380,000</u>	-	<u>20,000</u>	<u>360,000</u>	<u>20,000</u>
Sewer fund total			<u>476,250</u>	<u>-</u>	<u>33,750</u>	<u>442,500</u>	<u>33,750</u>
Total business-type activity long-term liabilities			<u>476,250</u>	<u>-</u>	<u>33,750</u>	<u>442,500</u>	<u>33,750</u>
Total revenue backed long-term obligations			<u>\$2,625,650</u>	<u>-</u>	<u>113,760</u>	<u>2,511,890</u>	<u>106,020</u>

Revenue bonds are issued where the City pledges income derived from the acquired or constructed assets to pay the debt service. The MBA fund has an agreement with the City whereby the City leases the facilities constructed by the MBA revenue debt for an annual amount equal to the debt service requirements. All revenues of the sewer operations are pledged to the sewer fund revenue bonds.

The annual requirements to amortize all revenue backed long-term debt outstanding as of June 30, 2005 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 116,020	73,728	189,748
2007	119,360	70,892	190,252
2008	121,770	67,926	189,696
2009	125,280	64,849	190,129
2010	128,870	61,633	190,503
2011-2015	640,770	254,863	895,633
2016-2020	729,860	150,908	880,768
2021-2025	<u>529,960</u>	<u>32,742</u>	<u>562,702</u>
	<u>\$2,511,890</u>	<u>77,541</u>	<u>3,289,431</u>

Oakley City Corporation
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 4 - OTHER INFORMATION

4-A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City participates in the Utah Local Government Trust, a public agency insurance mutual, which provides coverage for property damage and general liability. The City is subject to a minimal deductible for claims. There have been no significant reductions in insurance coverage from coverage in the prior year. Amounts of settlements have not exceeded insurance coverage in any of the past three fiscal years.

4-B. Employee pension and other benefit plans

Plan Description:

The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System), which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy:

The City is required to contribute a percent of covered salary to the following system: 13.08% to the Noncontributory System. The contribution rate is the actuarially determined rate and is approved by the Board as authorized by Chapter 49.

The City's contributions to the various systems for the years ending June 30, 2005, 2004 and 2003 for the Noncontributory System were, respectively, \$8,212, \$4,805, and \$5,112. The contributions were equal to the required contributions for each year.

REQUIRED SUPPLEMENTAL INFORMATION
(Unaudited)

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Oakley City Corporation
Notes to Required Supplementary Information
June 30, 2005

Budgetary Comparison Schedules

The Budgetary Comparison Schedules presented in this section of the report are for the City's General Fund and its major Special Revenue Fund, the Municipal Building Authority (MBA) Fund.

Budgeting and Budgetary Control

Budgets for the General Fund and Special Revenue Fund, as well as for the Capital Projects Fund, are legally required and are prepared and adopted on the modified accrual basis of accounting.

Original budgets represent the revenue estimates and spending authority authorized by the City Council prior to the beginning of the year. Final budgets represent the original budget amounts plus any amendments made to the budget during the year by the Council through formal resolution. Final budgets do not include unexpended balances from the prior year because such balances automatically lapse to unreserved fund balance at the end of each year.

Current Year Excess of Expenditures over Appropriations

For the year ended June 30, 2005, all department and fund expenditures were under the appropriated budgets.

Oakley City Corporation
**SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -BUDGET AND ACTUAL-GENERAL FUND**
 (Unaudited)
 For the Year Ended June 30, 2005

	Budgeted <u>Original</u>	Budgeted <u>Final</u>	<u>Actual</u>	Variance with Final Budget Under (Over)
REVENUES:				
Taxes	\$188,890	188,890	297,683	(108,793)
Licenses and permits	45,400	94,790	49,641	45,150
Intergovernmental revenues	53,000	53,000	41,965	11,035
Charges for services	294,000	345,000	325,369	19,631
Interest	10,000	10,000	19,974	(9,974)
Miscellaneous revenue	<u>103,390</u>	<u>170,400</u>	<u>213,797</u>	<u>(43,397)</u>
Total revenues	<u>694,680</u>	<u>862,080</u>	<u>948,429</u>	<u>(86,349)</u>
EXPENDITURES:				
General government:				
Council	6,750	6,750	4,828	1,922
Administrative	228,500	127,500	116,714	10,786
Planning and zoning	26,600	26,600	18,542	8,058
Buildings	176,000	235,000	230,453	4,547
Public safety -building Inspection	-	21,000	20,609	391
Highways and streets	25,250	25,250	6,577	18,673
Parks and recreation	<u>501,580</u>	<u>822,580</u>	<u>813,905</u>	<u>8,675</u>
Total expenditures	<u>964,680</u>	<u>1,264,680</u>	<u>1,211,628</u>	<u>53,052</u>
Excess (Deficiency) of Revenues Over (Under Expenditures)	<u>(270,000)</u>	<u>(402,600)</u>	<u>(263,199)</u>	<u>(139,401)</u>
Other Financing Sources and (Uses)				
Transfers in	150,000	150,000	156,474	(6,474)
Transfers (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and (uses)	<u>150,000</u>	<u>150,000</u>	<u>156,474</u>	<u>(6,474)</u>
Net Change in Fund Balances	<u>\$(120,000)</u>	<u>(252,600)</u>	<u>(106,725)</u>	<u>(145,875)</u>
Fund balances - beginning of year			<u>782,913</u>	<u>(782,913)</u>
Fund Balances - end of year			<u>\$676,188</u>	<u>(928,788)</u>

Oakley City Corporation
**SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 SPECIAL REVENUE FUND
 MUNICIPAL BUILDING AUTHORITY
 (Unaudited)
 For the Year Ended June 30, 2005**

	Budgeted <u>Original</u>	Budgeted <u>Final</u>	<u>Actual</u>	Variance with Final Budget <u>Under (Over)</u>
REVENUES:				
Charges for services	\$150,000	160,000	\$156,492	3,508
Interest	<u>-</u>	<u>-</u>	<u>20</u>	<u>(20)</u>
Total revenues	<u>150,000</u>	<u>160,000</u>	<u>156,512</u>	<u>3,488</u>
EXPENDITURES:				
Debt Service:				
Principal	\$ 80,000	80,000	80,010	(10)
Interest	<u>70,000</u>	<u>80,000</u>	<u>76,464</u>	<u>3,536</u>
Total expenditures	<u>150,000</u>	<u>160,000</u>	<u>156,474</u>	<u>3,526</u>
Excess (Deficiency) of Revenues Over (Under Expenditures	<u>(150,000)</u>	<u>(160,000)</u>	<u>38</u>	<u>(38)</u>
Other Financing Sources and (Uses)				
Transfers in	-	-	-	-
Transfers (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	\$ <u><u>0</u></u>	<u><u>0</u></u>	<u>38</u>	<u>(38)</u>
Fund balances - beginning of year			<u>1,633</u>	<u>(1,633)</u>
Fund Balances - end of year			<u>\$ 1,671</u>	<u>(1,671)</u>

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OTHER REPORTS

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Ulrich & Associates, PC

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor and Members
of the City Council
Oakley City Corporation

We have audited the financial statements of Oakley City Corporation as of and for the year ended June 30, 2005, and have issued our report thereon dated December 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Oakley City Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oakley City Corporation's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we have reported to management of Oakley City Corporation in a separate letter dated December 2, 2005.

Members of Utah Association of CPAs | American Institute of CPAs

Charles E. Ulrich, CPA | Michael E. Ulrich, CPA

This report is intended solely for the information and use of management, the City Council, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Ulrich & Associates, P.C.

December 2, 2005

Ulrich & Associates, PC

Certified Public Accountants

STATE LEGAL COMPLIANCE REPORT

The Honorable Mayor and Members
of the City Council
Oakley City Corporation

We have audited the financial statements of Oakley City Corporation for the year ended June 30, 2005 and have issued our report thereon dated December 2, 2005. As part of our audit, we have audited Oakley City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

B & C Road Funds
Liquor Law Enforcement

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax Limitations
Liquor Law Enforcement
B & C Road Funds
Other General Issues
Uniform Building Code Standards
Impact Fees

The management of Oakley City Corporation, is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Members of Utah Association of CPAs | American Institute of CPAs

Charles E. Ulrich, CPA | Michael E. Ulrich, CPA

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Oakley City Corporation, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Wright & Associates, P.C.

December 2, 2005

Oakley City Corporation
State Legal Compliance
SCHEDULE OF FINDINGS
For the year ending June 30, 2005

1. General Compliance

While 5% of total revenues of the general fund must be maintained as a minimum fund balance, the maximum in the general fund may not exceed 18% of the total estimated revenue. During the 2005 fiscal year, the City exceeded the maximum fund balance by \$342,192.

Management Response

The City has exceeded the fund balance limit due to the need for additional funds to complete the recreation center project. As noted in the general fund, the City Council has designated virtually all of the fund balance for the recreation center completion. Additionally, the City has adequately budgeted for these expenditures in the general fund as shown by no expenditures over appropriations in that fund. Due to the method of tracking and paying for recreation center expenditures, it does not make sense for the City to move these funds into the capital projects fund. In the subsequent year, the City plans to complete the project thereby expending the remaining funds related to the project which will in turn decrease the fund balance to within the required limits.